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E.O. 12958: N/A
TAGS: EFIN ECON PREL PL
SUBJECT: Polish Ministry of Finance Reorganizes Debt Department

Ref: Warsaw 742 and previous

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¶1. (U) At the end of January, the Ministry of Finance reorganized its debt department, creating a unified department from two formerly separate units, one for foreign debt and one for domestic debt. Pawel Kowalewski, the new head of the unified department, explained to Econoffs that this unification is the first step on the road to the Ministry's ultimate goal of creating an independent agency to manage Poland's official debt. In MOF's view, an independent agency would be more immune to potential political pressure regarding official debt, which in turn could help lower the market's risk rating for Poland.

¶2. (SBU) Jacek Tomorowicz, the head of MOF's foreign relations department, told Econoff that the merging of the two offices also reflected a growing maturity in Poland's debt management capacity. At one time, the primary purpose of Poland's foreign borrowing was to repay foreign loans. As Poland moves to repay the last of the old communist-era debts (through an offer to repay outstanding Paris Club debt early, reftel), this strategy has come to an end. For the last three years, Poland has increasingly turned to foreign markets to take advantage of opportunities to finance budget operations on better terms than those offered in the domestic debt market. Tomorowicz also noted that it makes less sense for Poland to maintain separate debt offices as it approaches adopting the Euro (expected by 2009 or 2010). Kowalewski explained that potential buyers of Polish bonds are looking for a clearer picture of Poland's overall debt performance. Over the coming months, Finance will issue updated statistics integrating domestic and foreign issues to show its blended maturities and yields. Kowalewski believes this will make Polish bonds more transparent for markets, which in turn will help the ministry extend average maturities. MOF is pleased that it has extended average maturities beyond two years (currently, the average of outstanding bonds is 2.4 years). The ministry hopes to increase the average to 3 years by 2006, with an ultimate goal of an average maturity of 4 years in the medium-term. At the end of 2003, the GOP's total foreign debt was 128.5 billion Zloty ($35 billion at the then-current exchange rate).

Munter

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